

STAND. COM. REP. NO. **2630**

Honolulu, Hawaii

FEB 20 2026

RE: S.B. No. 2362
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Third State Legislature
Regular Session of 2026
State of Hawaii

Sir:

Your Committees on Economic Development and Tourism and
Commerce and Consumer Protection, to which was referred S.B.
No. 2362 entitled:

"A BILL FOR AN ACT RELATING TO TAXATION,"

beg leave to report as follows:

The purpose and intent of this measure is to disallow the
dividends paid deduction for real estate investment trusts,
commonly called REITs.

Your Committees received testimony in support of this measure
from the Hawai'i Public Health Institute, Hawai'i Children's Action
Network Speaks!, Indivisible Hawai'i, Church of the Crossroads,
Hawaii Appleseed Center for Law and Economic Justice, Hawaiian
Council, UNITE HERE! Local 5, Hawai'i Alliance for Community-Based
Economic Development, ACLU Hawai'i, Chamber of Sustainable
Commerce, and fifty individuals.

Your Committees received testimony in opposition to this
measure from NAIOP Commercial Real Estate Development Association
Hawaii; Douglas Emmett, Inc.; Nareit Hawaii; Hawai'i Association of
REALTORS; Extra Space Storage Inc.; Hawaii Laborers-Employers
Cooperation and Education Trust Fund; Park Hotels & Resorts Inc.;
International Union of Operating Engineers Local 3; Sunstone Hotel
Investors, Inc.; OPTrust; Host Hotels & Resorts, Inc.; Simon
Property Group; Public Storage; Housing Hawai'i's Future; Grassroot

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Institute of Hawaii; Realty Income Corporation; and two individuals.

Your Committees received comments on this measure from the Department of Taxation and Tax Foundation of Hawaii.

Your Committees find that under the State's current taxation system, real estate investment trusts (REITs) are afforded an exemption from paying corporate income taxes on dividends paid to shareholders. While shareholders pay federal and state income taxes on earnings from the trust, most shareholders do not live in the State. Therefore, incomes generated from local properties contribute to state tax revenues elsewhere. According to the Department of Taxation, this will amount to \$26.8 million in forgone income tax revenue in taxable year 2026 alone. Other states, including Connecticut, Illinois, and Virginia, have successfully enacted measures to ensure income generated within their borders is taxed equitably. This measure will increase the State's tax revenues, contributing funds to public education, basic infrastructure, climate change mitigation and adaptation, and numerous other policy objectives.

Your Committees acknowledge the concerns raised in testimony by various real estate industry stakeholders that disallowing the dividends paid deduction may negatively impact the State's economy, including by disincentivizing investment; harming the construction trades, building suppliers, architects, and engineers; slowing construction of workforce and affordable housing; and stifling growth. Your Committees recognize that evaluating the full economic consequences of this measure, including weighing any potential increase in tax revenue against revenue lost due to businesses divesting from the local market, is critical to informed policymaking. Therefore, amendments to this measure are necessary to address this matter.

Accordingly, your Committees have amended this measure by:

- (1) Deleting language that would have disallowed the dividends paid deduction for REITs;
- (2) Inserting language that requires the Department of Business, Economic Development, and Tourism to:



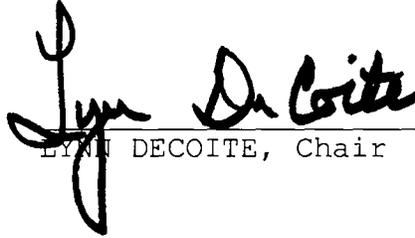
- (A) Conduct a study evaluating the potential impacts of eliminating the dividends paid deduction for REITs; and
- (B) Submit a report to the Legislature before the Regular Session of 2027;
- (3) Inserting a blank appropriation amount;
- (4) Amending section 1 to reflect its amended purpose;
- (5) Inserting an effective date of July 1, 2050, to encourage further discussion; and
- (6) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Economic Development and Tourism and Commerce and Consumer Protection that are attached to this report, your Committees are in accord with the intent and purpose of S.B. No. 2362, as amended herein, and recommend that it pass Second Reading in the form attached hereto as S.B. No. 2362, S.D. 1, and be referred to your Committee on Ways and Means.

Respectfully submitted on
behalf of the members of the
Committees on Economic
Development and Tourism and
Commerce and Consumer
Protection,



JARRETT KEOHOKALOLE, Chair



LYNN DECOITE, Chair



The Senate
 Thirty-Third Legislature
 State of Hawai'i

Record of Votes
Committee on Commerce and Consumer Protection
CPN

Bill / Resolution No.:* SB 2362	Committee Referral: EDT/CPN, WAM	Date: 2/18/26		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KEOHOKALOLE, Jarrett (C)	✓			
FUKUNAGA, Carol (VC)	✓			
LAMOSAO, Rachele	✓			
MCKELVEY, Angus L.K.				✓
AWA, Brenton	✓			
TOTAL	4	0	0	1
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink File with Committee Report Committee Drafting Agency				

*Only one measure per Record of Votes